



California Public Utilities Commission

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News Release

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Media Contact: Terrie Prosper, 415.703.1366, news@cpuc.ca.gov

PUC APPROVES RENEWABLE AND UTILITY-OWNED POWER PURCHASES FOR SDG&E TO ENSURE RELIABILITY

SAN FRANCISCO, June 9, 2004 - The California Public Utilities Commission (PUC) today approved five power purchase proposals for San Diego Gas and Electric Company (SDG&E) to meet the utility's short-term and long-term reliability needs.

The proposals were the result of an open and competitive Request for Proposal (RFP) process that solicited bids from all qualified resources. The proposals approved are the least cost/best fit choices for SDG&E, are consistent with SDG&E's long-term resource plan, provide benefits to consumers, and are in the public interest.

The proposals include a demand response program from Comverge, a renewable resource contract with Envirepel, and contracts for three gas-fired facilities: Ramco, Palomar, and Otay Mesa. SDG&E is also authorized to complete negotiations with Celerity on a demand response program.

"There has not been new generation built in SDG&E's service area for more than 20 years although the SDG&E service territory population has increased markedly," said PUC President Michael R. Peevey. "The power purchase agreements approved by the Commission today provide SDG&E with a diversified portfolio of resources to meet its reliability needs."

The Comverge proposal will use Direct Load Control during the summer months to manage customer end-use equipment, specifically air conditioning units, electric water heaters, and pump motors. The Comverge proposal will help SDG&E meet its reliability needs and will increase its portfolio of demand reduction programs.

The Envirepel renewable project is a biomass project. Envirepel will contract for delivery of green waste to be burned as fuel in an environmentally acceptable manner. This project will help SDG&E meet its reliability needs in the 2005 – 2007 timeframe and will increase its portfolio of renewable resources.

The Ramco proposal is a 45 MW 6,000 combustion turbine project that Ramco will build, to SDG&E's satisfaction, and which will then be purchased by SDG&E on a turn-key basis. This will

provide SDG&E with the benefit of utility ownership of generation and will provide intermediate power to help the utility meet its reliability needs in 2005 – 2007.

Palomar is a 500 MW/base, 555 MW/peak combined cycle natural gas-fired generation plant to be built by Sempra Energy Resources (SER) and then turned over to SDG&E as a utility-owned generation project. Palomar is a highly efficient, low heat rate, economically and environmentally superior power plant. Palomar will enable the utility to meet its short-term reliability needs as well as its long-term needs, giving the utility the benefit of a utility-owned generation asset, and is in the best interest of consumers and ratepayers for providing needed power. Because SER is an affiliate of SDG&E, the PUC encourages SER to renegotiate its California Department of Water Resources contract for the benefit of ratepayers on terms that are competitive with today's power prices.

Although SDG&E established a need for Ramco and Palomar, in order to not over-burden ratepayers if there are changes in the market, all customers of SDG&E that are currently ineligible for direct access are obligated to pay for the stranded costs of any new generation for the next 10-years.

Otay Mesa is a 585 MW gas-fired combined-cycle power plant under construction by Calpine that will interconnect with SDG&E's electric system at the Miguel substation. The Otay Mesa proposal, already approved by the California Energy Commission, includes interconnection and certain network facilities upgrades costing \$16 million. The 10-year Power Purchase Agreement (PPA) with Otay Mesa, beginning January 1, 2008, will correspond with the interconnection and network upgrade work that SDG&E must construct in order to maximize the benefits from this PPA. While power from Otay Mesa is not needed to meet the 2007 – 2009 reliability short-fall, Otay Mesa will provide state-of-the-art, low heat-rate, economical, clean power to SDG&E's service area that will allow the utility to reduce its costs by utilizing Otay Mesa for existing contracts, in lieu of the aging, expensive, inefficient units currently being used for those contracts.

The Otay Mesa PPA, along with the Comverge, Celerity, Envirepel, Ramco, and Palomar contracts, comports with a "hedging" strategy of having various ownership situations, different pricing and contract terms, fuel diversity, and a mix of resources. A mixed portfolio will allow SDG&E to ensure that it has adequate, reliable, and reasonably priced energy, including reserves, to meet both its short-term and long-term reliability needs.

For more information on the PUC, please visit www.cpuc.ca.gov.

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